

**MINUTES OF AUDIT AND RISK ASSURANCE COMMITTEE MEETING
HELD IN TRINITY HOUSE LONDON ON 27 MARCH 2014**

Present:

Mrs E D Johnson (Chair)
Professor P Matthews
Mr D J Ring

In attendance:

Captain I McNaught – Executive Chairman (EC)
Mr J S Wedge - Director of Finance & Support Services (DoFSS)
Ms J Taylor - National Audit Office (NAO)
Mr N Haigney – Acting Group Head of DfT Internal Audit - ARA
Mrs R Roberts – Audit & Performance Manager (A&PM)
Mr J D Price – Legal & Risk Manager & Secretary (LRM)

1. Apologies for Absence

None.

2. Conflicts of Interest

There were no conflicts of interest beyond those already declared in the Register of Members' Interests.

3. Minutes of Meeting on 19 December 2013

Approved and signed.

4. Matters Arising

4.1 Arising from item 4.3, DoFSS reported that consideration had been given to the value above which hospitality should be declared in the Hospitality Register and it had been agreed that the current value of £50 should remain.

4.2 Arising from item 8, Professor Matthews reported that Natural Resources Wales was looking at developing a responsibility matrix and audit. Once it had been developed, he would discuss the matter further with DoFSS. **[Action: Professor Matthews]**

4.3 Arising from item 9, the NAO reported that the GLF Accounts were now likely to be laid before Parliament after the Summer Parliamentary Recess.

5. Management System Annual Review

A&PM presented for information the report on the Management System Annual Review submitted to the Annual Management Review meeting in January. It provided inter alia an overview of the performance of the Management System. The Committee noted the report accordingly.

6. Report on 2013/14 Integrated Internal Audit Plan

A&PM reported that all audits assigned to the DfT ARA team for 2013/14 had been completed and reports received. The Assurance Testing & Audit Follow Up Report had been issued in draft and Management's comments had been passed to the ARA team. In terms of TH audits the position was as set out in the report. In addition the User Consultation Audit Report had now been returned and the Potential Conflicts of Interest Audit was close to completion.

7. Corporate Governance & Risk Management Audit

Mr Haigney presented the report on the Corporate Governance and Risk Management Audit. Full assurance could be derived that systems of corporate governance, risk management and internal control were fully established,

documented and working effectively within TH. Furthermore, TH was compliant with, to the extent appropriate, the revised guidance on corporate governance and risk management issued by HM Treasury.

The audit had noted that, at the suggestion of the NAO, a Fraud & Bribery Risk Register had been established in November and that two members of the Board were Trustees of the Marine Society and Sea Cadets and that this was not included on the Register of Interests. The relationships were, however, disclosed transparently through appropriate declarations at each Corporate Board meeting. In noting the report the Committee suggested that such an audit might in the future, if expanded, replace, at least in part, the Triennial Review (TR) Process, which also looked at governance. DoFSS agreed to pursue the point. He also confirmed that the TR Reviewer had received a copy of the report. **[Action: DoFSS]**

8. Tri-GLA Follow-Up Helicopter Audit

Mr Haigney presented the Part 2 Audit Report on GLA Helicopter Contract Management. It covered the adequacy and effectiveness of control design, embedded in the arrangements established by the Project Executive for the procurement and award of the Tri-GLA Helicopter Contract. Excellent progress had been made with implementing the recommendations identified in Part 1. An overall rating of 'reasonable assurance' had been given. There had been two medium priority recommendations. Firstly, the agreed criteria upon which the three GLA Boards would consider the Project Board's proposed supplier were still to be developed and there was a four week gap between the first and last GLA Board's review of the proposal, introducing unwarranted risk, which should, if possible, be addressed. Secondly, to support an award proposal the financial and economic aspects of the business case needed further development. In noting the report, the Committee agreed that tri-GLA recommendations, as far as they affected TH, should be covered by A&PM's report on the status of audit recommendations.

[Action: A&PM]

9. Tri-GLA Risk Response Criteria

Mr Haigney presented the report on the audit of the controls over the process to produce the Tri-GLA Risk Response Criteria. It included understanding the controls over the collation and use of quantitative data and the combination of this data with qualitative information. An overall rating of 'substantial assurance' had been given. Three low priority recommendations had been made, which Management had noted but no action was to be taken, as the Document had been finalised. EC advised that he was content with the report and that no action was to be taken.

10. CIL Light Dues Forecasting Audit

Mr Haigney presented the report prepared for CIL on the audit of the controls over CIL Light Dues forecasting calculations and fitness-for-purpose to support informed decision making. Whilst the audit had been carried out for CIL, data for CIL forecasts was from TH, created using shipping data in the ALDIS system. An overall rating of 'substantial assurance' had been given. There had been one medium priority recommendation for TH relating to the completeness of data downloaded from ALDIS and a low level recommendation for CIL. Some suggestions for enhancing the forecast had also been made. He would include the audit in his review of TH systems when considering his Annual Opinion for 2013/14. **[Action: Mr Haigney]**

11. CDM Regulations – Follow-Up Audit

Mr Haigney presented the Audit Report on compliance with the Construction Design and Management (CDM) Regulations as set out in the TH CDM Safe Work Instruction, which was a follow-up audit. An overall rating of 'reasonable assurance' had been given. There had been two medium level recommendations relating (i) to the design of the Work Instruction and (ii) the monitoring and storage of documentation. There had also been two low level recommendations. Significant

work had been carried out to address the issues found during the previous audit. In noting the report the Committee agreed that the rating of 'medium' for the two medium priority recommendations was harsh. Mr Haigney agreed to reconsider the ratings with the audit team. **[Action: Mr Haigney]**

12. NAO Interim Report

Ms Taylor presented the NAO's report on its interim audit of TH completed on 7 March. Testing results had been generally satisfactory and no reportable errors in transactions and balances had been identified. A key focus of the audit was the valuation of property, plant and equipment. Work in this area to date had included tests on arrangements for internal buoy valuation calculations and on the terms of engagement with Braemar Seacope Valuations Ltd for the ships and the Valuation Office Agency for other categories. Further work would be carried out in May. Testing had also included consideration of the extent to which the additional financial reporting requirements could impact on published financial statements. Ms Taylor noted that the TH Finance team had so far met all reporting requirements despite absorbing an additional workload.

13. Report on Outstanding Audit Recommendations

A&PM presented a report on progress with regard to implementation of the audit issues arising from DfT internal audits, TH management system audits and third party certification audits. A significant number of issues had been closed out since the last meeting. The outcome of the March 2014 ISO 9001 Management System and ISO 14001 Environmental Management System Surveillance Audits had been very positive with no non-conformities and only two opportunities for improvement. She had included a schedule of all open Non-Conformities and Potential Improvement Notes for reference but would in future include open Non-Conformities and overdue PINs only. The Committee noted the report accordingly.

[Action: A&PM]

14. Management Assurance Statement

The Committee approved the Management Assurance Statement for the period April to December 2013 previously agreed by correspondence and signed off by the Committee Chair. A&PM reported that 'full assurance' had been given in all cases except in respect of Records Management, where there had been 'substantial assurance'. The form for the 12-month Statement was awaited. **[Action: A&PM]**

15. Governance Statement

A&PM presented the draft Governance Statement to be included in the Annual Report and Accounts, which had been prepared having regard to best practice. The Executive Remuneration Committee had met on 3 not 2 occasions in 2013/14 and the Statement would be corrected accordingly. The Head of Internal Audit's Annual Opinion would be included once it was available. In noting the Statement and in particular the section on 'Risk Monitoring', the Committee agreed that the Directorate/Departmental Registers should be formally reviewed on a quarterly rather than six-monthly basis so as to bring their review period in line with that for the Corporate and Organisational Risk Registers. **[Action: LRM]**

16. Draft 2014/15 Internal Audit Plan

A&PM presented the TH Internal Audit Risk Assessment Strategy and the proposed 2014/15 Internal Audit Plan. It had been produced following a workshop in November 2013. The output had enabled the audit universe to be defined and had assisted with an assessment of the inherent risk and the strengths of the control environment within TH systems. This had led to the calculation of the audit requirement rating and determination of the audit plan. The Plan for 2014/15 was fully integrated. The proposed DfT Internal Audit element for 2014/15 totalled 67 days, the same as in 2013/14. It was not now proposed to include Supplier Assessments within the Integrated Plan. The Committee discussed the timing of the 'Commercial Fees and

Financial Planning' audit and agreed that it was appropriate to effect it ahead of the move to the new CIL funding arrangements in 2015/16. It would also be an opportune time to review the impact and controls in place in light of the wider commercial powers in the Marine Navigation Act. The 2014/15 Internal Audit Plan was otherwise agreed. **[Action: A&PM]**

17. Financial Management of the GLF

DoFSS presented a discussion paper for information and comment on the financial management of the GLF. The purpose of the report was to propose a solution for the future financial management of the GLF and GLAs which would enable the DfT to recognise the full expenditure and income of the GLAs in its accounts. At the same time the administrative burden on the GLAs would be reduced and the costs to industry minimised. Since submitting his report he had received some input from Mr Gorman, the NLB Director of Finance, to include in the report. In summary to meet the Treasury's Clear Line of Sight obligations, the DfT Resource Accounts should contain one line showing the full annual GLA income and expenditure derived from the final NAO audited GLF Accounts. This would be accompanied by a note explaining that the GLF was a hypothecated fund outside the normal Parliamentary estimate process and referring to the GLF accounts for a full financial picture. The GLF Financial Report would continue to be submitted to the DfT each month but also sent quarterly to the DfT Board. The GLAs would cease completing DfT Finance Workbooks. He would update the paper in the light of Mr Gorman's comments and discuss the way forward in terms of approaching the DfT with EC and the Committee Chair. The Committee noted the position accordingly. **[Action: DoFSS]**

18. Review of Risk Registers

LRM presented his report on the outcome of the quarterly review of the Corporate and Organisational Risk Registers. As previously, both Registers had been reviewed by the Executive Committee earlier that month. Key points to note were that the risk in respect of the Cabinet Office Triennial Review had stabilised following early feedback from the Reviewer; the 'Pensions' risk had fallen as a number of outstanding issues in connection with the transfer to the PCSPS had been resolved; and the 'ONS Risk' had risen due to increasing pressure from Government to comply with Central Government reporting and other requirements. In terms of the Organisational Risk Register, the HR risk had been increased in terms of probability from low to medium in the light of recruitment and retention issues and the transfer of pension administration to the PCSPS. The Committee noted the revised Corporate Risk Register and the summary report on the Organisational Risk Register and Directorate/Departmental Registers and agreed submission of the Corporate Risk Register to the Board. **[Action: LRM]**

19. Review of Committee Effectiveness

The Chair thanked Members and Attendees for returning the questionnaire on the Committee's effectiveness in 2013/14. The questions were based on the high-level good practice principles in HM Treasury's Audit Committee Handbook. The results were very encouraging. The average score was higher in almost every case compared to 2012/13. LRM added that the two areas which had shown the most significant increase were in respect of the Committee's understanding of TH's risks and the Committee's interface with Internal and External auditors, both areas in which improvements had been made during the year.

In noting the report the Committee agreed that the results should form the basis of the Committee's annual report to the Board. It further agreed that the Secretary should draft the report for consideration by Members out of committee so that it could be submitted to the Board in May and support the Governance Statement in terms of the Committee's opinion about the comprehensiveness of assurances in meeting the needs of the Board and EC acting in the role of Accounting Officer. **[Action: LRM]**

20. Any Other Business

- 20.1** Mr Haigney reported that there had been a review of financial management including Internal Audit within Government. As a result a Cross Departmental Internal Audit Service (XDIAS) had been established. DfT Audit & Risk Assurance now formed part of XDIAS. The new approach would provide for greater consistency across Government in terms of Internal Audit.
- 20.2** Mr Haigney further reported that his secondment from PwC had been extended until June and he would continue as Head of Internal Audit until that time. The Committee noted that there was no requirement to purchase its Internal Audit service from DfT/XDIAS and that the service could be provided in-house.
- 20.3** DoFSS reported that the Assurance Testing Audit Report would be issued shortly and proposed that it should be circulated to Members for review by correspondence so that it could be included in the Head of Internal Audit's Annual Report. The Committee agreed the proposal accordingly. **[Action: DoFSS/A&PM]**
- 20.4** Professor Matthews enquired as to the extent to which recruitment of seafarers in particular had been hampered by the reclassification of Light Dues as a tax and the GLAs as part of Central Government for accounting purposes. DoFSS responded that TH had been required to submit a pay remit following public sector pay guidelines for many years and the ONS decision had not unduly affected the position in this regard. The audit on succession planning in 2014/15 would touch on recruitment and retention.

21. Date of Next Meeting

It was agreed that the next meeting would be on 11 June 2014 in TH, commencing at 1400.